INSTITUTIONAL STRENGTHENING OF THE MINISTRY OF ECONOMIC AFFAIRS AND FINANCE

(EC-0198)

EXECUTIVE SUMMARY

Borrower and guarantor:	Republic of Ecuador	
Executing agency:	Ministry of Economic Affairs and Finance	
Amount and source:	IDB: (OC/IFF) Local: Total:	US$5.12 million US$1.28 million US$6.40 million
Terms and conditions:	Amortization period: Grace period: Disbursement period: Interest rate: Inspection and supervision: Credit fee: Currency:	25 years 42 months 42 months variable (IFF) 1% 0.75% United States dollars drawn from the Single Currency Facility

Objectives: The general objective of this operation is to support the consolidation of Ecuador's fiscal sector as the main instrument of economic policy, in a context of fiscal policy reforms and institutional strengthening of the Ministry of Economic Affairs and Finance (MEF). The operation's specific objectives are as follows: (a) to bolster systems for formulating, analyzing and monitoring the country's economic policy; (b) to tighten up the control, recording and monitoring of public borrowing; (c) to develop capacity to monitor sectional finance; (d) to support the definition of public investment policies, and the monitoring and evaluation of investment projects; and (e) to strengthen general internal management in the MEF, in areas such as human-resource policy, training and information technology.

Description: The general concept of the program involves developing certain substantive areas that are crucial for adequate functioning of the MEF, while at the same time strengthening horizontal elements to enhance the sustainability of the reforms, in particular human-resource policy. The support being proposed will aim to form a solid base of permanent and well trained staff, operating with appropriate and sustainable technological support, in an organization structured to respond adequately to the responsibilities legally assigned to it.

The components of the program encompass the main substantive areas of the General Undersecretariat for Economic Affairs and the Undersecretariat for Management. As regards the General Undersecretariat for Finance, the program will only support the public credit area, since budget, treasury and accounting are already being supported by the Integrated Financial Management System Program (SIGEF) funded by the World Bank. The proposed program, together with SIGEF, provide comprehensive support for strengthening all the main MEF areas.

The program is structured in five components that will provide specialized technical assistance and training, together with coordinated informatics systems and equipment, through an executing unit within the MEF. This will report to the Ministry's General Coordination Unit; its operating costs will amount to approximately US$791,000 (12% of the program total). The components, together with approximate amounts, are as follows:

1. Component 1: Economic policy support (US$842,000)

The objective of this component is to support the definition and monitoring of the country's macroeconomic policy, through institutional strengthening of the Undersecretariat for Economic Policy, which is part of the General Undersecretariat for Economic Affairs. Support will target three key areas: (a) analysis of current circumstances: preparation of notes, bulletins and reports on current economic issues (including fiscal reforms), to provide a basis for macroeconomic policy fine-tuning; (b) macroeconomic programming: medium and long-term management using financial programming, projections and impact simulations; and (c) fiscal statistics: generation of complete, up-to-date and accurate fiscal data, and maintenance of an economic and social database to assist in designing and evaluating economic policy.

2. Component 2: Strengthening of public debt management (US$328,000)

The objective of this component is to support the management of public debt, both domestic and external, in the light of recent developments in capital markets, through institutional strengthening in the Undersecretariat for Public Credit, which forms part of the General Undersecretariat for Finance. Support will strengthen the following areas: (a) public debt management: responsible for the recording of borrowing and its financial management; (b) evaluation and monitoring: focusing on debt contracting and monitoring processes; and (c) financial operations: responsible for the issuance, placement and registration of government bonds.

3. Component 3: Support for sectional finance (US$1,202,000)

The objectives of this third component are to strengthen the new Sectional Finance Support Coordination Unit to enable it to monitor subnational finances and act as interlocutor with municipal and provincial governments on fiscal issues, as well as establishing a flow of information on sectional finance.

The main activities of this component are as follows: (a) design, implementation and training for the Sectional Finance Information System (SIFIS); (b) monitoring of sectional finance in terms of compliance with applicable legislation; (c) advising the ministry on the establishment of rules and directives on sectional finance, as well as supervising their execution and promoting their diffusion; (d) systemizing and promoting the dissemination of regional financial information for citizen use; (e) coordinating training initiatives and technical assistance on fiscal matters for sectional governments; and (f) conducting studies and investigations on subnational finances.

4. Component 4: Strengthening of public investment (US$800,000)

This component is based on the recent creation of the Undersecretariat for Public Investment (SIP), in the General MEF Undersecretariat for Economic Affairs. The component aims to strengthen the SIP to enable it to carry out its regulatory and operational functions on the public investment system.

The main activities of this component are: (a) to review and redefine the public investment analysis and processing cycle; (b) to design the re-engineering of SIP processes; (c) to establish mechanisms for validating investment proposals; (d) to design mechanisms to monitor and evaluate investment projects; (e) to strengthen linkages between the development plan and the public budget; (f) to strengthen linkages between the macroeconomic plan and the annual investment plan; and (g) to design, develop and implement informatics systems for public investment management.

5. Component 5: Strengthening of MEF general management (US$1,667,000)

This component is expected to support a variety of general management areas in the MEF as part of its institutional strengthening process, in order to enhance its capacity to attract and retain qualified staff, and to update, integrate and broaden staff access to information through the information technology structure.

The key activities of this component are: (a) development and implementation of a comprehensive human-resource policy; (b) institutional strengthening of the Human-Resource Coordination Unit; (c) implementation of strategies for dealing with new MEF staffing needs; (d) design and implementation of an informatics system for human-resource management; (e) implementation of the Ministry Training Center, and review and execution of the strategic training plan; (f) development and implementation of the strategic information technology plan, procurement of hardware and implementation of specific software; (g) development and implementation of a corporate intranet and ministry website; and (h) design and implementation of an institutional communication plan for the MEF.

The Bank's country and sector strategy: The Bank's strategy in the country is limited to four main objectives: (a) stabilization of the economy and restoration of its growth capacity; (b) poverty alleviation, human-capital formation and social inclusion; (c) efficient management of infrastructure with private-sector participation; and (d) State modernization and decentralization, and promotion of sustainable regional development. The proposed operation is consistent with the following objectives: (a) economic stabilization, strengthening of fiscal management tools in a context of dollarization, in which monetary policy is practically nonexistent; and (b) State modernization and decentralization, in which the MEF is seen as a key part of the State apparatus, incorporating a program component to contribute to an orderly fiscal decentralization process.

Environmental and social review: Given the nature of the activities to be funded through the program, no direct social or environmental impacts are anticipated. The program is expected to have a positive indirect impact on the environment by strengthening ex ante evaluation of the environmental impact of public-sector investment projects; and in the social area also, as it is likely to support and deepen the fiscal decentralization process and thus result in better targeting of social expenditure.

Benefits: The main benefit of the operation is that it will represent a major contribution to the achievement of sustainable macroeconomic stability. Given the characteristics of the Ecuadorian economy, in which fiscal policy is practically the only macroeconomic management tool available, appropriate planning and execution of public-sector finances are of primary importance. The program seeks to strengthen the MEF in key areas of fiscal management, and this, combined with support from other multilateral agencies, represents comprehensive support for the institution.

One of the program's major benefits is that it will help make the decentralization process more orderly and measured. The country is in the process of designing an administrative and fiscal decentralization strategy, and the MEF is expected to play a leading role in this. The program will create institutional capacity in the MEF to enable it to fulfill this role permanently, in coordination with other agencies involved in the process.

Risks: The low level of pay and high staff turnover, in public administration generally, puts the sustainability of the proposed reforms at risk. The government has authorized wage increases for restructured public bodies, but these have not yet been approved for the MEF. At the present time, the MEF shores up critical areas of its work using skilled staff hired through technical cooperations with the Bank, or in conjunction with other public bodies such as the Central Bank or the Banco del Estado. This is not a comprehensive and permanent solution, however. The operation includes design and implementation of a human-resource policy for the MEF, aimed at ensuring it skilled and adequately paid staff on a sustainable basis.

As is true of many institutional reform processes in the region, the legal basis underpinning MEF reform is not very robust. Given that the Ministry of Finance and Public Credit was converted into the Ministry of Economic Affairs and Finance by presidential decree, the structure and functions of the new entity—particularly in recently incorporated areas—could well be altered through the same channel. There is a possibility that future governments may totally or partially reverse the reform process by restructuring the Ministry through another presidential decree.

The chief factor mitigating against this risk is institutionalization of the reform itself, such that the benefits and potential consequences of reversing the process are clear. The program will help form an institutional image for the MEF, in keeping with the established order in the economic sector and the new relations and responsibilities assigned to other bodies such as the Central Bank and the Planning Department (ODEPLAN).

Special contractual clauses:	Conditions precedent to the disbursement of Bank funding will be as follows: 1. Creation, by ministerial agreement, of the program coordinating unit (UCP) and the programming and evaluation committee (CPE), both with structures and functions acceptable to the Bank (see paragraph 3.4). 2. Provision of physical space and selection of staff for the UCP (see paragraph 3.4).
Poverty-targeting and social sector classification:	This operation does not qualify as a social-equity enhancing project, as described in the indicative targets mandated by the Bank's Eighth Replenishment (document AB-1704). It also does not qualify as a poverty-targeted investment (PTI).
Exceptions to Bank policy:	None.
Procurement:	The procurement limits applicable to Ecuador are US$250,000 for goods and services and US$200,000 for consulting services. Procurement of goods and services with reference prices in the range US$100,000-US$250,000 will be carried out through local competitive bidding; and those below US$100,000 will use the open call for proposals mechanism. The selection of consulting services with reference values below US$200,000 will entail prequalification of consulting firms and direct invitation to firms shortlisted by the executing agency (see paragraph 3.7).